

**REPORT OF THE AUDIT OF THE
HENDERSON COUNTY
SHERIFF'S SETTLEMENT - 2010 TAXES**

**For The Period
April 16, 2010 Through April 15, 2011**



**ADAM H. EDELEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
HENDERSON COUNTY
SHERIFF'S SETTLEMENT - 2010 TAXES

For The Period
April 16, 2010 Through April 15, 2011

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2010 Taxes for the Henderson County Sheriff for the period April 16, 2010 through April 15, 2011. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$20,728,661 for the districts for 2010 taxes, retaining commissions of \$625,458 to operate the Sheriff's office. The Sheriff distributed taxes of \$19,995,450 the districts for 2010 taxes. Taxes of \$48 are due to the districts from the Sheriff and refunds of \$59 are due to the Sheriff from the taxing districts.

Report Comment:

2010-01 The Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$28,822 And Enter Into A Written Agreement To Protect Deposits

Deposits:

The Sheriff's deposits as of October 31, 2010 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$28,822

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable Donald H. McCormick, Henderson County Judge/Executive

Honorable Ed Brady, Henderson County Sheriff

Members of the Henderson County Fiscal Court

Independent Auditor's Report

We have audited the Henderson County Sheriff's Settlement - 2010 Taxes for the period April 16, 2010 through April 15, 2011. This tax settlement is the responsibility of the Henderson County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Henderson County Sheriff's taxes charged, credited, and paid for the period April 16, 2010 through April 15, 2011, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated December 14, 2011 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Donald H. McCormick, Henderson County Judge/Executive
Honorable Ed Brady, Henderson County Sheriff
Members of the Henderson County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

2010-01 The Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$28,822 And Enter Into A Written Agreement To Protect Deposits

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a long horizontal flourish extending to the right.

Adam H. Edelen
Auditor of Public Accounts

December 14, 2011

HENDERSON COUNTY
ED BRADY, SHERIFF
SHERIFF'S SETTLEMENT - 2010 TAXES

For The Period April 16, 2010 Through April 15, 2011

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 2,307,514	\$ 2,346,624	\$ 9,777,600	\$ 2,402,827
Tangible Personal Property	401,835	414,224	1,165,933	1,277,214
Fire Protection	1,101			
Increases Through Exonerations	40	40	169	627
Current Year Franchise - Billed	163,467	154,725	508,104	
Prior Year Franchise - Billed	2,648	2,212	7,342	
Additional Billings	405	399	1,643	474
Unmined Coal - 2010 Taxes	56,800	57,792	240,679	58,725
Oil and Gas Property Taxes	32,659	33,212	138,385	33,765
Penalties	9,139	9,414	38,306	11,250
Adjusted to Sheriff's Receipt	(1,292)	24,834	(5,474)	(1,335)
Gross Chargeable to Sheriff	2,974,316	3,043,476	11,872,687	3,783,547
<u>Credits</u>				
Exonerations	4,262	4,154	15,167	36,501
Exonerations - Unmined Coal	368	374	1,559	380
Discounts	44,631	45,868	179,465	61,722
Delinquents:				
Real Estate	44,294	45,181	187,645	45,786
Tangible Personal Property	1,849	1,975	5,284	4,433
Oil	1,069	1,087	4,528	1,105
Unmined Coal - 2010 Taxes	513	522	2,175	531
Additional Bills	82	75	327	85
Current Year Franchise - Uncollected	40,378	37,586	115,365	
Prior Year Franchise - Uncollected	1,556	1,295	4,230	
Minimum Bills	248	332	914	464
Total Credits	139,250	138,449	516,659	151,007
Taxes Collected	2,835,066	2,905,027	11,356,028	3,632,540
Less: Commissions *	120,490	123,464	227,121	154,383
Taxes Due	\$ 2,714,576	\$ 2,781,563	\$ 11,128,907	\$ 3,478,157
Taxes Paid	2,705,771	2,773,958	11,103,368	3,412,353
Refunds (Current and Prior Year)	8,757	7,649	25,541	65,817
Due District or (Refunds Due Sheriff) as of		**		
Completion of Audit	\$ 48	\$ (44)	\$ (2)	\$ (13)

* And ** See Next Page.

The accompanying notes are an integral part of this financial statement.

HENDERSON COUNTY
ED BRADY, SHERIFF
SHERIFF'S SETTLEMENT - 2010 TAXES
For The Period April 16, 2010 Through April 15, 2011
(Continued)

* Commissions:

4.25% on	\$	9,372,633
2% on	\$	11,356,028

** Special Taxing Districts:

Library District	\$	(16)
Health District		(5)
Extension District		(23)

(Refunds Due Sheriff)	\$	(44)
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HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2011

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were not met, as the Sheriff did not have a written agreement with the bank.

HENDERSON COUNTY
NOTES TO FINANCIAL STATEMENT
April 15, 2011
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 15, 2011, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, on October 31, 2010, the Sheriff's bank balance was exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$28,822

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2010. Property taxes were billed to finance governmental services for the year ended June 30, 2011. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 23, 2010 through April 15, 2011.

B. Unmined Coal Taxes

The property tax assessments were levied as of January 1, 2010. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 19, 2011 through July 18, 2011.

Note 4. Interest Income

The Henderson County Sheriff earned \$9,715 as interest income on 2010 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office. As of December 14, 2011, the Sheriff owed \$239 in interest to the school district and was due \$238 in interest overpaid to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Henderson County Sheriff collected \$52,504 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the Sheriff's office. As of December 14, 2011, the Sheriff owed \$130 in 10% add-on fees to his fee account.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Donald H. McCormick, Henderson County Judge/Executive
Honorable Ed Brady, Henderson County Sheriff
Members of the Henderson County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Henderson County Sheriff's Settlement - 2010 Taxes for the period April 16, 2010 through April 15, 2011, and have issued our report thereon dated December 14, 2011. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Henderson County Sheriff's office is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Henderson County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)


Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Henderson County Sheriff's Settlement - 2010 Taxes for the period April 16, 2010 through April 15, 2011, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation as item 2010-01.

The Henderson County Sheriff's response to the finding identified in our audit is described in the accompanying comment and recommendation. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Henderson County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', written in a cursive style.

Adam H. Edelen
Auditor of Public Accounts

December 14, 2011

COMMENT AND RECOMMENDATION

HENDERSON COUNTY
ED BRADY, SHERIFF
COMMENT AND RECOMMENDATION

For The Period April 16, 2010 Through April 15, 2011

STATE LAW AND REGULATION:

2010-01 The Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$28,822 And Enter Into A Written Agreement To Protect Deposits

On October 31, 2010, \$28,822 of the Sheriff's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The Sheriff should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Sheriff's Response: Will correct with bank.

